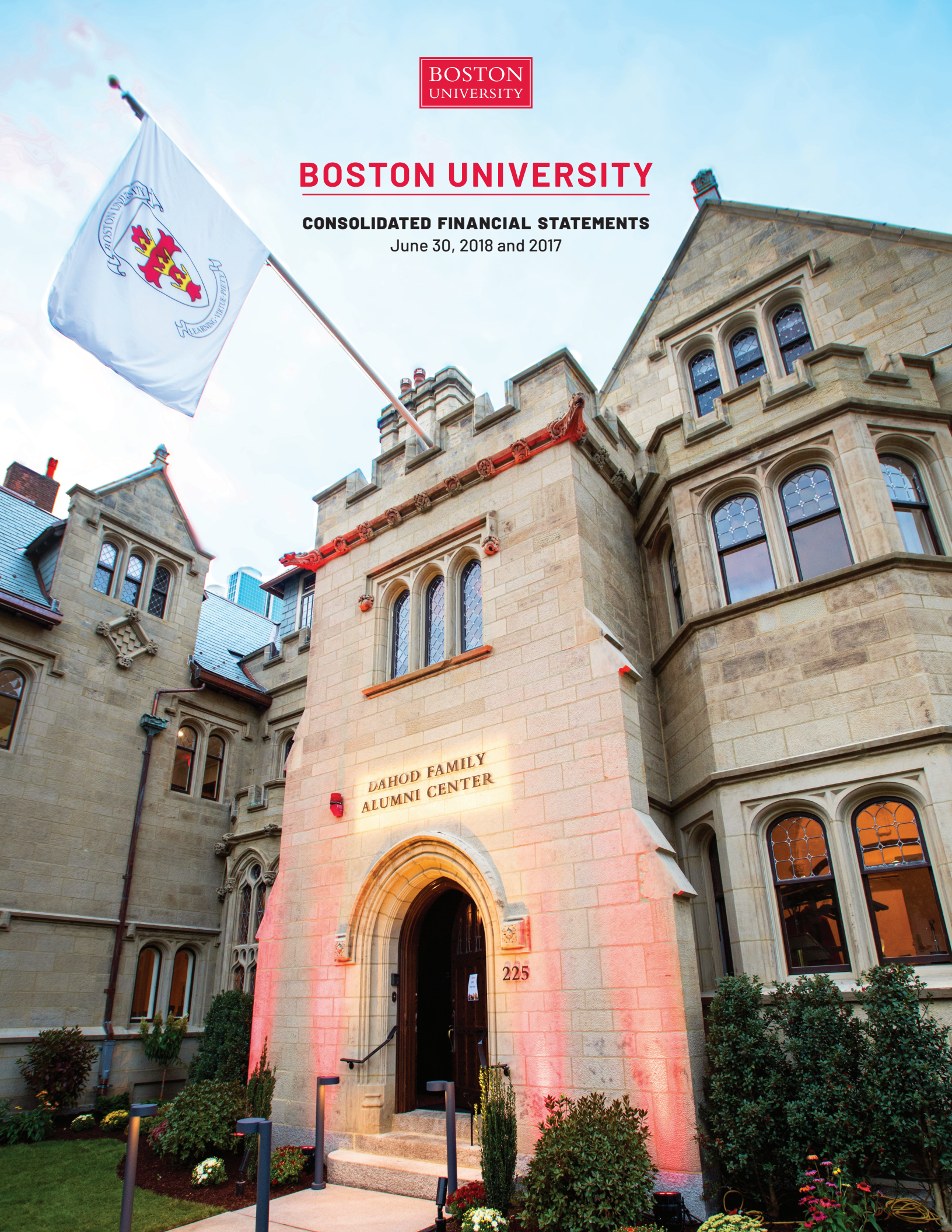


BOSTON  
UNIVERSITY

# BOSTON UNIVERSITY

## CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018 and 2017



DAHOD FAMILY  
ALUMNI CENTER

225



# **Boston University**

Consolidated Financial Statements  
June 30, 2018 and 2017





**Letter from the Treasurer—Fiscal Year 2018:**

It is my pleasure to present the audited financial statements for the fiscal year ending June 30, 2018. Our fiscal year financial results were among the best the University has achieved in support of our broad academic mission and strategic objectives in teaching and research.

From an operating perspective, Boston University ended the fiscal year with a change in net assets from operating activities of \$143.9 million, reflective of the continued successful efforts to moderate expense growth and create operational efficiencies. These resources represent one source of necessary capital for the continued reinvestment in the University's academic and other strategic priorities as well as for capital renewal and replacement.

In an environment of constrained external research support, new research awards for Boston University in Fiscal Year 2018 grew by 21% to \$486.8 million for investments in areas of inquiry where Boston University expects to make substantial contributions.

Boston University's fundraising efforts continue to demonstrate increasing success—raising \$252.8 million in gifts and pledges during Fiscal Year 2018. Gifts from alumni and friends have provided generous support for undergraduate financial aid, allowing for greater substitution of grants for loans. In addition, this support has helped transform our campus physical landscape, including the Joan & Edgar Booth Theatre and College of Fine Arts Production Center, the BUild Lab, the Dahod Family Alumni Center, and the renovation and expansion of Myles Standish Hall and the Henry M. Goldman School of Dental Medicine.

The University's endowment assets experienced another year of significant growth, ending the year at \$2.2 billion, representing an 11.4% year-over-year increase, including a portfolio investment return of 9.8% as well as other additions during the year.

Boston University's net assets increased again by more than \$500 million for the fiscal year, resulting in an aggregate increase of \$1.025 billion or 35% over the past two fiscal years. In addition to the impact from Fiscal Year 2018 operating results, the University benefited from strong endowment growth, philanthropic support, and the consolidation of net assets from the Wheelock College merger.

The University has made significant progress in building balance sheet strength, growing net assets at a compound annual growth rate of 9.9% over the past five years driven in large part by strong operating results and endowment growth offset by very modest increases in debt over the same time period.

These financial results are supportive of and consistent with the upgrade in the University's credit rating from A1 to Aa3 by Moody's Investors Service in November 2017. In reporting this change, Moody's noted the University's record of continuous improvement, careful fiscal management, strong operating cash flow, and thorough strategic planning.

As Boston University begins a yearlong process of examination and revision to our strategic plan, our ability to finance the plan requires our continued fiscal success. While challenges for colleges and universities remain ahead, the University's strong balance sheet and continued support from operations are expected to provide much of the necessary ongoing capital support for our strategic aspirations.

A handwritten signature in black ink, appearing to read "Martin J. Howard".

Martin J. Howard  
Senior Vice President, CFO and Treasurer



KPMG LLP  
Two Financial Center  
60 South Street  
Boston, MA 02111

## Independent Auditors' Report

The Board of Trustees  
Boston University:

We have audited the accompanying consolidated financial statements of Boston University and its subsidiaries, which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Boston University and its subsidiaries as of June 30, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

**KPMG LLP**

September 13, 2018



**BOSTON UNIVERSITY • CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

June 30, 2018 and 2017  
(\$000)

	2018	2017
<b>ASSETS</b>		
Cash and cash equivalents . . . . .	\$ 148,749	\$ 198,959
Cash and cash equivalents-restricted . . . . .	130,913	268,426
Short-term investments . . . . .	748,869	520,393
Accounts and loans receivable, net. . . . .	219,626	185,067
Pledges receivable, net . . . . .	234,920	210,954
Prepaid expenses and other assets . . . . .	41,580	27,990
Investment in residual asset note . . . . .	36,212	42,685
Long-term investments. . . . .	2,226,940	2,034,697
Property, plant, and equipment, net . . . . .	2,612,480	2,410,125
<b>Total assets</b> . . . . .	<b>\$ 6,400,289</b>	<b>\$ 5,899,296</b>
 <b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accrued payroll and related expenses . . . . .	\$ 121,769	\$ 117,780
Accounts payable and accrued expenses . . . . .	120,485	118,405
Deferred revenue . . . . .	63,068	65,324
Student deposits. . . . .	113,931	102,125
Fair value of interest rate exchange agreements. . . . .	269,626	318,200
Residual asset note obligation . . . . .	36,212	42,685
Capital lease obligations . . . . .	81,921	82,414
Other long-term obligations . . . . .	141,883	142,151
Deferred ground lease revenue. . . . .	98,715	99,877
Bonds and notes payable, net . . . . .	1,429,921	1,404,982
<b>Total liabilities</b> . . . . .	2,477,531	2,493,943
Net assets:		
Unrestricted . . . . .	2,247,701	1,996,102
Temporarily restricted . . . . .	879,307	685,808
Permanently restricted . . . . .	795,750	723,443
<b>Total net assets</b> . . . . .	3,922,758	3,405,353
<b>Total liabilities and net assets</b> . . . . .	<b>\$ 6,400,289</b>	<b>\$ 5,899,296</b>

*See accompanying notes to consolidated financial statements.*

**BOSTON UNIVERSITY • CONSOLIDATED STATEMENTS OF ACTIVITIES**

For the years ended June 30, 2018 and 2017  
(\$000)

	2018			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>OPERATING REVENUES</b>				
Student tuition and fees . . . . .	\$ 1,485,167	\$	\$	\$1,485,167
Student aid . . . . .	(385,485)			(385,485)
Net student tuition and fees . . . . .	<u>1,099,682</u>			<u>1,099,682</u>
Sponsored programs-direct . . . . .	263,159			263,159
Sponsored programs-indirect . . . . .	89,070			89,070
External fringe benefit recoveries . . . . .	38,251			38,251
Contributions . . . . .	40,504			40,504
Sales and services . . . . .	114,009			114,009
Spending formula amount and other investment income . . . . .	72,671			72,671
Sponsored program income for student aid . . . . .	14,793			14,793
Auxiliary enterprises . . . . .	286,988			286,988
Student aid . . . . .	(13,365)			(13,365)
Net auxiliary enterprises . . . . .	<u>273,623</u>			<u>273,623</u>
Contributions used for operations . . . . .	12,568			12,568
<b>Total operating revenues . . . . .</b>	<u>2,018,330</u>			<u>2,018,330</u>
<b>OPERATING EXPENSES</b>				
Instruction and departmental research . . . . .	969,220			969,220
Educational support activities . . . . .	187,065			187,065
Sponsored programs . . . . .	260,832			260,832
Libraries . . . . .	28,358			28,358
Institutional support . . . . .	207,571			207,571
Student support . . . . .	10,299			10,299
Auxiliary enterprises . . . . .	211,052			211,052
<b>Total operating expenses . . . . .</b>	<u>1,874,397</u>			<u>1,874,397</u>
<b>Change in net assets from operating activities . . . . .</b>	<u>143,933</u>			<u>143,933</u>
<b>NONOPERATING ACTIVITIES</b>				
Contributions . . . . .		49,507	35,785	85,292
Contributions used for operations . . . . .		(12,568)		(12,568)
Fair value of net assets from acquisition . . . . .		130,311	32,961	163,272
Reinvested endowment and other investment income	13,543	16,094	1,529	31,166
Net realized and unrealized gains on investments and other assets . . . . .	65,032	84,191	782	150,005
Spending formula amount . . . . .	(30,076)	(40,238)	(719)	(71,033)
Net realized and unrealized gains on interest rate exchange agreements . . . . .	20,516			20,516
Net assets released from restrictions- building funds . . . . .	32,203	(32,203)		
Other additions (deductions) and transfers, net . . . . .	6,448	(1,595)	1,969	6,822
<b>Net nonoperating activities . . . . .</b>	<u>107,666</u>	<u>193,499</u>	<u>72,307</u>	<u>373,472</u>
<b>Change in net assets . . . . .</b>	251,599	193,499	72,307	517,405
Beginning net assets . . . . .	1,996,102	685,808	723,443	3,405,353
<b>Ending net assets . . . . .</b>	<u>\$ 2,247,701</u>	<u>\$ 879,307</u>	<u>\$ 795,750</u>	<u>\$3,922,758</u>



**BOSTON UNIVERSITY • CONSOLIDATED STATEMENTS OF ACTIVITIES**

For the years ended June 30, 2018 and 2017  
(\$000)

2017				
Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
\$ 1,390,128	\$	\$	\$1,390,128	<b>OPERATING REVENUES</b>
(344,110)			(344,110)	Student tuition and fees
1,046,018			1,046,018	Student aid
234,665			234,665	Net student tuition and fees
82,737			82,737	Sponsored programs-direct
39,542			39,542	Sponsored programs-indirect
39,405			39,405	External fringe benefit recoveries
105,320			105,320	Contributions
				Sales and services
58,226			58,226	Spending formula amount and other investment income
13,707			13,707	Sponsored program income for student aid
277,860			277,860	Auxiliary enterprises
(11,441)			(11,441)	Student aid
266,419			266,419	Net auxiliary enterprises
8,996			8,996	Contributions used for operations
1,895,035			1,895,035	<b>Total operating revenues</b>
				<b>OPERATING EXPENSES</b>
894,771			894,771	Instruction and departmental research
180,085			180,085	Educational support activities
235,449			235,449	Sponsored programs
27,270			27,270	Libraries
198,974			198,974	Institutional support
9,287			9,287	Student support
199,267			199,267	Auxiliary enterprises
1,745,103			1,745,103	<b>Total operating expenses</b>
149,932			149,932	<b>Change in net assets from operating activities</b>
	42,055	104,369	146,424	<b>NONOPERATING ACTIVITIES</b>
	(8,996)		(8,996)	Contributions
				Contributions used for operations
16,417	17,241	1,300	34,958	Fair value of net assets from acquisition
				Reinvested endowment and other investment income
91,115	103,144	1,137	195,396	Net realized and unrealized gains on investments and other assets
(26,684)	(37,321)	(459)	(64,464)	Spending formula amount
				Net realized and unrealized gains on interest rate exchange agreements
71,990			71,990	Net assets released from restrictions- building funds
2,229	(2,229)			Other additions (deductions) and transfers, net
(18,057)	1,917	(1,751)	(17,891)	<b>Net nonoperating activities</b>
137,010	115,811	104,596	357,417	<b>Change in net assets</b>
286,942	115,811	104,596	507,349	Beginning net assets
1,709,160	569,997	618,847	2,898,004	<b>Ending net assets</b>
\$ 1,996,102	\$ 685,808	\$ 723,443	\$3,405,353	

See accompanying notes to consolidated financial statements.

**BOSTON UNIVERSITY • CONSOLIDATED STATEMENTS OF CASH FLOWS**

For the years ended June 30, 2018 and 2017  
(\$000)

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets . . . . .	\$ 517,405	\$ 507,349
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation . . . . .	124,325	112,903
Amortization . . . . .	(1,476)	(968)
Fair value of net assets from acquisition . . . . .	(163,272)	
Loss on disposal of property and equipment . . . . .	964	287
Unrealized gains on interest rate exchange agreements . . . . .	(48,574)	(103,620)
Settlements on swap replacement transactions, net . . . . .	11,263	12,987
Net realized and unrealized gains on investments . . . . .	(161,224)	(203,675)
Contributions and pledge payments restricted for long-term investment . . . . .	(61,325)	(63,135)
Gifts of securities and property . . . . .	(10,095)	(4,091)
Unrealized losses (gains) on currency exchange . . . . .	485	(905)
Loss from extinguishment of debt . . . . .	369	12,195
Changes in operating assets and liabilities:		
Decrease (increase) in accounts and loans receivable, net . . . . .	424	(2,741)
Increase in pledges receivable, net . . . . .	(23,966)	(83,289)
(Increase) decrease in prepaid expenses and other assets . . . . .	(13,411)	3,450
Increase in accrued payroll and related expenses . . . . .	1,058	3,408
Increase in accounts payable and accrued expenses . . . . .	1,644	6,317
(Decrease) increase in deferred revenue . . . . .	(3,083)	7,986
Increase in student deposits . . . . .	11,479	2,602
Decrease in other long-term obligations . . . . .	(1,256)	(959)
(Decrease) increase in deferred ground lease revenue . . . . .	(1,162)	63,054
<b>Net cash provided by operating activities . . . . .</b>	<b>180,572</b>	<b>269,155</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of investments . . . . .	(2,090,318)	(1,483,883)
Proceeds from sales and maturities of investments . . . . .	1,827,951	1,139,865
Purchases of property and equipment . . . . .	(193,909)	(226,047)
Cash contribution from acquisition . . . . .	40,846	
Cash contribution from acquisition-restricted . . . . .	3,028	
Decrease in cash and cash equivalents-restricted . . . . .	137,513	31,623
<b>Net cash used in investing activities . . . . .</b>	<b>(274,889)</b>	<b>(538,442)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from notes and bonds . . . . .	34,506	201,820
Bond premium received . . . . .		30,019
Payment of bonds, notes, and mortgages . . . . .	(45,746)	(116,854)
Payment of bond issuance costs . . . . .	(38)	(1,148)
Payment of capital lease obligations . . . . .	(493)	(473)
Deposit received from deferred sale of non-core real estate . . . . .		76,000
Payment of transaction costs related to deferred sale of non-core real estate . . . . .		(1,975)
Decrease in other long-term liabilities-annuity obligations . . . . .	(521)	(639)
Contributions and pledge payments restricted for long-term investment . . . . .	61,325	63,135
Proceeds from sale of restricted gifts of securities . . . . .	6,337	4,091
Settlements on swap replacement transactions, net . . . . .	(11,263)	(12,987)
<b>Net cash provided by financing activities . . . . .</b>	<b>44,107</b>	<b>240,989</b>
<b>Net decrease in cash and cash equivalents . . . . .</b>	<b>(50,210)</b>	<b>(28,298)</b>
<b>Cash and cash equivalents beginning of year . . . . .</b>	<b>198,959</b>	<b>227,257</b>
<b>Cash and cash equivalents end of year . . . . .</b>	<b>\$ 148,749</b>	<b>\$ 198,959</b>



*For the years ended June 30, 2018 and 2017*

---

## **1. Organization and Summary of Significant Accounting Policies**

### *Organization:*

Boston University (the University) is an independent, nonprofit, coeducational, nonsectarian institute of higher education, founded in 1839 and chartered under the laws of the Commonwealth of Massachusetts on May 26, 1869. The University has three principal campuses, the Charles River Campus in the Back Bay, the Fenway Campus in Boston, and the Medical Campus in the South End, offering students more than 250 areas of study in 17 schools and colleges.

The University is generally exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue Code, except to the extent the University has unrelated business income. The University's federal net operating loss carryforwards as of June 30, 2018 are \$20,173,000, which expire in various years from 2024 to 2037. Because management believes it is more likely than not that unrelated business activities will generate future taxable income during the periods in which all or part of these operating loss carryforwards will become deductible, a deferred tax asset totaling \$3,432,000 has been recorded as of June 30, 2018. No deferred tax asset was recorded as of June 30, 2017. No current provision for income taxes due was recorded as of June 30, 2018 or 2017. The University has no material uncertain tax positions.

In December 2017, the University entered into a merger agreement with Wheelock College. As a result of the merger, the University's School of Education was renamed the Boston University Wheelock College of Education & Human Development, combining the doctoral programs and research capabilities of the University's School of Education with the early childhood expertise of Wheelock College's School of Education, Child Life and Family Studies.

Effective June 1, 2018, Wheelock College merged with and into the University, with the University as the surviving corporation. All of Wheelock College's assets, liabilities, and net assets were transferred to the University on that date. The endowment-related funds will be maintained in accordance with Massachusetts State Law.

### *Summary of Significant Accounting Policies:*

#### *Basis of Presentation:*

The accompanying consolidated financial statements have been prepared on the accrual basis in accordance with U.S. generally accepted accounting principles (GAAP).

The consolidated financial statements include the University and its wholly owned subsidiaries. All significant inter-company transactions and accounts have been eliminated.

Boston Medical Center is the primary teaching affiliate of the Boston University School of Medicine. Boston Medical Center is a separately governed legal entity organized as a 501(c)(3) and is not consolidated in the accompanying consolidated financial statements.

#### *Net Asset Classification:*

Net assets, revenues, and realized and unrealized gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes in net assets are classified as follows:

- Unrestricted net assets are free of donor-imposed restrictions. Contributions, endowment income, gains, and investment income that are received and spent or whose restrictions are met in the same reporting period are reported as unrestricted. Unrestricted net assets may be designated by the Board of Trustees for specific purposes, including to function as endowments.
- Temporarily restricted net assets include contributions and endowment income for which donor-imposed restrictions as to time or purpose have not been met (primarily future capital projects) and pledges receivable for which the ultimate purpose of the proceeds is not permanently restricted. These net assets are released from restrictions when the specified time elapses or actions have been taken to meet the restrictions. The University is subject to the Massachusetts Uniform Prudent Management of Institutional Funds Act of 2009 (UPMIFA), under which donor-restricted endowment funds may be appropriated for expenditure by the Board of Trustees of the University in accordance with the standard of prudence prescribed by UPMIFA. Net assets of such funds in excess of the fair value of the original gift are classified as temporarily restricted until appropriated by the Board and spent in accordance with the standard of prudence imposed by UPMIFA.

For the years ended June 30, 2018 and 2017

- Permanently restricted net assets include contributions, pledges, and income required to be permanently retained and primarily consist of the historic dollar value of contributions to donor-restricted endowment funds.

The composition of net assets as of June 30, 2018 and 2017, in thousands of dollars, is as follows:

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment:				
General purpose . . . . .	\$ 657,480	\$ 172,070	\$ 154,439	\$ 983,989
Scholarships . . . . .	87,497	204,346	204,397	496,240
Professorships . . . . .	96,084	174,188	196,347	466,619
Awards, prizes, fellowships, and other . . . . .	20,713	47,885	39,291	107,889
Research . . . . .	13,134	9,829	26,486	49,449
Annuities . . . . .		23,997		23,997
Total endowment and annuity funds . . . . .	<u>874,908</u>	<u>632,315</u>	<u>620,960</u>	<u>2,128,183</u>
Other funds:				
General and plant funds . . . . .	1,208,742	92,269		1,301,011
Building and gift funds . . . . .	83,938	39,920		123,858
Pledges . . . . .		92,013	142,907	234,920
Student loan funds . . . . .	21,929	2,131	31,883	55,943
Unexpended endowment distributions . . . . .	58,184	20,659		78,843
Total other funds . . . . .	<u>1,372,793</u>	<u>246,992</u>	<u>174,790</u>	<u>1,794,575</u>
Total net assets . . . . .	<u>\$ 2,247,701</u>	<u>\$ 879,307</u>	<u>\$ 795,750</u>	<u>\$ 3,922,758</u>

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment:				
General purpose . . . . .	\$ 606,040	\$ 149,414	\$ 130,788	\$ 886,242
Scholarships . . . . .	80,497	181,811	178,456	440,764
Professorships . . . . .	89,767	137,339	186,066	413,172
Awards, prizes, fellowships, and other . . . . .	19,363	43,655	34,219	97,237
Research . . . . .	11,641	7,588	22,683	41,912
Annuities . . . . .		21,825		21,825
Total endowment and annuity funds . . . . .	<u>807,308</u>	<u>541,632</u>	<u>552,212</u>	<u>1,901,152</u>
Other funds:				
General and plant funds . . . . .	1,039,228			1,039,228
Building and gift funds . . . . .	78,221	57,448		135,669
Pledges . . . . .		68,748	142,206	210,954
Student loan funds . . . . .	22,362	1,188	29,025	52,575
Unexpended endowment distributions . . . . .	48,983	16,792		65,775
Total other funds . . . . .	<u>1,188,794</u>	<u>144,176</u>	<u>171,231</u>	<u>1,504,201</u>
Total net assets . . . . .	<u>\$ 1,996,102</u>	<u>\$ 685,808</u>	<u>\$ 723,443</u>	<u>\$ 3,405,353</u>



For the years ended June 30, 2018 and 2017

---

*Collections:*

The University's collections, acquired through purchases and contributions since the University's inception, are not recognized as assets on the Consolidated Statements of Financial Position. Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired.

The University's collections are made up of artifacts of historical significance, scientific specimens, and art objects that are held for educational, research, scientific, and curatorial purposes. Each of the items is cataloged, preserved, and cared for, and activities verifying their existence and assessing their condition are performed regularly. The collections are subject to a policy that requires proceeds from dispositions to be used to acquire other items for collections.

*Use of Estimates:*

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results may differ from those estimates.

*Related Party Transactions:*

Under the University's conflict of interest policy, all business and financial relationships among the University and entities affiliated with Trustees or Officers of the University are subject to the review and approval of the Audit Committee of the Board of Trustees.

*Cash and Cash Equivalents:*

Cash equivalents consist primarily of short-term money market mutual funds and treasury bills with original maturities of 90 days or less that are not invested as part of the long-term investment assets. These amounts are carried at cost, which approximates fair value.

Cash and cash equivalents-restricted represent collateral posted with counterparties under the terms of certain derivative agreements.

*Fair Value Measurements:*

Investments and interest rate exchange agreements are reported at fair value in the University's consolidated financial statements. Fair value represents the price that would be received upon the sale of an asset or paid upon the transfer of a liability in an orderly transaction between market participants as of the measurement date. GAAP establishes a fair value hierarchy that prioritizes inputs used to measure fair value into three levels:

- Level 1—quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities.
- Level 2—observable prices that are based on inputs not quoted in active markets, but corroborated by market data.
- Level 3—unobservable inputs that are used when little or no market data is available.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In determining fair value, the University utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible.

The majority of the University's investments are held through limited partnerships and commingled funds for which fair value is estimated using net asset value (NAV) reported by fund managers as a practical expedient. Fair values of investments in funds similar to mutual funds, deemed to have readily determinable fair value, are measured at published NAV.

The NAVs or their equivalents, as estimated and reported by the general partners or investment managers, are reviewed, monitored, and evaluated by the University's Investment Office, in accordance with valuation procedures established by the University's Investment Committee, the Chief Investment Officer, and the Senior Vice President, CFO, and Treasurer.

Valuation results, changes in valuation policies and procedures, and issues regarding valuation that may arise from time to time are reviewed with the University's Investment Committee, the Chief Investment Officer, and the Senior Vice President, CFO, and Treasurer.

For the years ended June 30, 2018 and 2017

---

Non-core institutional real estate is valued using one or more of the following valuation techniques: the use of prices and other information generated by relevant market transactions, or an income approach determining valuation by direct capitalization of net income or discounting future cash flows. Inputs such as capitalization rates, price information, operating statistics, specific and broad credit data, recent transactions, discount rates, and other factors are used in the valuation calculations.

*Funds Held in Trust by Others:*

The University is the beneficiary of certain perpetual trusts held and administered by outside trustees. The University's interests are reported at estimated fair value, based on the value of the underlying assets, which approximates the present value of future income from these trusts. These assets are categorized in Level 3 of the hierarchy. Income distributions from these trusts are recorded as investment income for current operations.

The University's split-interest agreements with donors consist of irrevocable charitable gift annuities and charitable remainder trusts held and administered by others. For annuity contracts, the contributed assets are included in investments at fair value. Contribution revenue, net of the accompanying obligation, is recognized as of the date the donated assets are transferred to the University, and liabilities are recorded at the present value of estimated future payments to the donors and beneficiaries under these agreements. The liabilities are adjusted during the term of the agreements and contracts to reflect actuarial gains and losses.

The present values of the estimated future cash receipts from charitable remainder trusts are recognized as assets and contribution revenues as of the dates the trusts are established. Distributions from these trusts are recorded as investment income, and the carrying value of the assets is adjusted for changes in the estimates of future receipts.

*Property, Plant, and Equipment:*

Land, buildings, equipment, and library books are reported at cost or estimated fair value at the date of contribution. Maintenance and repairs are expensed as incurred and improvements that increase the useful life of the asset are capitalized. Costs associated with the construction of new facilities are reported as additions to construction in progress when expended until such projects are completed. Equipment includes general and scientific equipment, computers, furniture, and vehicles.

The University acquired equipment or other assets of approximately \$3,416,000 in 2018 and \$3,135,000 in 2017 through the use of federal funds. In most cases, the University continues to maintain the assets after the granting agreement expires.

Depreciation is computed on a straight-line basis over the remaining useful lives of assets as follows: buildings, 50 years; renovations and improvements, 20 years or lease term, if shorter; University buildings used in sponsored research activities, 12 to 50 years, by using the distinct useful lives for each major building component; equipment, 2 to 20 years; internally used software, 20 years; and library books, 10 years. Depreciation expense for the years ended June 30, 2018 and 2017 was \$124,325,000 and \$112,903,000, respectively.

Long-lived assets and certain intangibles are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. When such events or changes in circumstances indicate an asset may not be recoverable, an impairment loss is recognized in an amount by which the asset's net carrying value exceeds its estimated fair value.

*Conditional Asset Retirement Obligations:*

The University recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which the obligation is incurred. When the liability is initially recorded, the cost of the asset retirement obligation is capitalized by increasing the carrying amount of the related long-lived asset. The liability is accreted to its present value each period, and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the Consolidated Statements of Activities.

The asset retirement obligation at June 30, 2018 and 2017 was \$13,993,000 and \$14,326,000, respectively, and is included in other long-term obligations in the Consolidated Statements of Financial Position.

For the years ended June 30, 2018 and 2017

*Tuition and Fees:*

Student tuition and fees are reported as revenue in the year the related academic services are rendered. Student tuition and fees received in advance of services to be rendered are reported as student deposits.

*Student Aid and Support:*

Student aid in the amount of \$385,485,000 and \$344,110,000 for the years ended June 30, 2018 and 2017, respectively, has been classified as a reduction of student tuition and fees revenue. In addition, student aid in the amount of \$13,365,000 and \$11,441,000 for the years ended June 30, 2018 and 2017, respectively, has been presented as a reduction of auxiliary enterprises (room and board) revenue.

In addition to student aid, student support in the amount of \$10,299,000 and \$9,287,000 for the years ended June 30, 2018 and 2017, respectively, has been presented as an operating expense. Student support includes University-funded work study and other incremental costs to support graduate and undergraduate students.

*Sponsored Programs:*

Revenues associated with contracts and grants are recognized as the related expenses or capital expenditures are incurred. Grant revenue used for the construction or acquisition of plant is reported within nonoperating activities. The University recognizes reimbursement of facilities and administrative costs relating to government contracts and grants at authorized rates each year. All funds expended in connection with government grants and contracts are subject to audit by granting agencies. In the opinion of management, any potential liability resulting from these audits will not have a material effect on the University's financial position.

*External Fringe Benefit Recoveries:*

External fringe benefit recoveries includes payments from affiliated organizations for the cost of fringe benefits paid by the University under a common paymaster agreement.

*Contributions:*

Contributions, including unconditional promises to give, are recognized upon receipt. Contributions other than cash are recorded at fair value at the date of contribution. Contributions with donor-imposed restrictions, which are reported as temporarily restricted revenues, are reclassified to unrestricted net assets when an expenditure is incurred that satisfies the restriction or the designated time elapses. Pledges receivable are carried at estimated net present value, net of allowance for uncollectible amounts. Conditional promises to give are not recognized until the conditions on which they depend are substantially met.

*Allocation of Expenses:*

Certain indirect costs have been allocated to functional expenses in the Consolidated Statements of Activities. For the years ended June 30, 2018 and 2017, these expenses are comprised of, in thousands of dollars:

	2018	2017
Operation and maintenance of plant . . . . .	\$ 122,913	\$ 110,978
Interest on indebtedness . . . . .	41,639	33,803
Depreciation . . . . .	124,325	112,903

*Nonoperating Activities:*

Nonoperating activities reflect transactions of a long-term investment or capital nature, including contributions to be received in the future, gains and losses on interest rate exchange agreements, the excess of investment returns over the spending formula amount, and certain other activities.

For the years ended June 30, 2018 and 2017

---

*Supplemental Disclosure of Cash Flow Information:*

The following information is intended to supplement the Consolidated Statements of Cash Flows for the years ended June 30, 2018 and 2017.

Interest paid in cash, net of capitalized interest of \$6,079,000 in 2018 and \$9,195,000 in 2017, was \$41,496,000 and \$32,772,000 for the years ended June 30, 2018 and 2017, respectively.

Noncash investing and financing activities for the year ended June 30, 2018 included property, plant and equipment, investments, and other assets of \$150,870,000 received and bonds payable of \$36,839,000 assumed from acquisition. Additional noncash investing activity included the change in accounts payable for property, plant and equipment of \$(3,848,000) and \$18,268,000 for the years ended June 30, 2018 and 2017, respectively.

*Reclassifications:*

Certain 2017 balances previously reported have been reclassified to conform to the 2018 presentation.

## 2. Investments

*Basis of Reporting:*

Investments consist of directly held equity and fixed income securities, registered mutual funds, exchange traded funds, commingled funds, limited partnerships, non-core institutional real estate, and funds held in trust by others. Investments are reported at estimated fair value.

If an investment is held directly by the University and an active market with quoted prices exists, the market price of an identical security is used as the reported fair value. The majority of the University's investments are in shares or units of institutional commingled funds and limited partnerships invested in equity, fixed income, hedge, natural resources, private equity, or real estate strategies. Hedge strategies involve funds whose managers have the authority to invest in various asset classes at their discretion, including the ability to invest long and short. Funds with hedge strategies generally hold securities or other financial instruments for which a ready market exists and may include stocks, bonds, put or call options, swaps, currency hedges, and other instruments, which are valued by the investment manager. Private equity funds employ buyout, growth, venture capital, and distressed security strategies. Real estate and natural resources funds generally hold interests in private real estate, oil and gas partnerships, and mineral holdings.

The University's interests in commingled investment funds are generally reported at the NAV reported by the fund managers and determined to be reasonable by the University. NAV is used as a practical expedient to estimate the fair value of the University's interest therein, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of June 30, 2018 and 2017, the University had no plans or intentions to sell investments at amounts different from NAV.

Although the University's alternative fund managers adhere to fair value accounting as required by ASC 820, *Fair Value Measurements and Disclosures*, because of inherent uncertainties in valuation assumptions, the estimated fair values for alternative investments may differ significantly from values that would have been used had a ready market existed, and the differences could be material. Such valuations are determined by fund managers and generally consider variables such as operating results, earnings of the underlying holdings, projected cash flows, recent sales prices, and other pertinent information.

The fair value of non-core institutional real estate is based on independent appraisals and broker opinions of value, including recent sales of relevant properties in the same region and in an active market. The determination of whether a real estate market is active is based on the median number of days to sale for properties with a similar geographic location, type, size, condition, and long-term occupancy rate. When independent appraisals have not been carried out and where comparable sales information is not available, a direct capitalization model is used, with significant assumptions including rental rates ranging from \$29 to \$58 per square foot and weighted average capitalization rates of 6.8%. Significant changes in these inputs may result in a significantly lower or higher fair value measure.



For the years ended June 30, 2018 and 2017

Cash and investments included in the Consolidated Statements of Financial Position at June 30, 2018 and 2017 were as follows, in thousands of dollars:

	2018	2017
Cash and cash equivalents . . . . .	\$ 148,749	\$ 198,959
Cash and cash equivalents-restricted . . . . .	130,913	268,426
Short-term investments . . . . .	748,869	520,393
Investment in residual asset note . . . . .	36,212	42,685
Long-term investments . . . . .	<u>2,226,940</u>	<u>2,034,697</u>
	<u>3,291,683</u>	<u>3,065,160</u>
Less: assets not reported at fair value:		
Investment in residual asset note . . . . .	(36,212)	(42,685)
Real estate partnerships accounted for under the . . . . . equity method . . . . .	<u>(24,069)</u>	<u>(22,726)</u>
Cash and investments at fair value . . . . .	<u>\$3,231,402</u>	<u>\$2,999,749</u>

The following tables summarize the University's cash and investments in the fair value hierarchy as of June 30, 2018 and 2017, in thousands of dollars:

As of June 30, 2018	Investments Measured at NAV	Investments Classified in the Fair Value Hierarchy			Total Fair Value
		Level 1	Level 2	Level 3	
Assets at fair value					
Cash and cash equivalents . . . . .	\$	\$ 279,662	\$	\$	\$ 279,662
Common and preferred equities:					
Domestic . . . . .	91,212	90,893			182,105
International . . . . .	<u>207,684</u>	<u>64,080</u>	<u>71,062</u>		<u>342,826</u>
	<u>298,896</u>	<u>154,973</u>	<u>71,062</u>		<u>524,931</u>
Fixed income:					
Domestic . . . . .		774	1,620		2,394
International . . . . .		8	180		188
U.S. government and agencies . . . . .		<u>862,071</u>	<u>107</u>		<u>862,178</u>
		<u>862,853</u>	<u>1,907</u>		<u>864,760</u>
Alternatives:					
Hedge . . . . .	686,755				686,755
Natural resources . . . . .	103,434				103,434
Private . . . . .	352,083			333	352,416
Real estate . . . . .	<u>61,968</u>			<u>345,184</u>	<u>407,152</u>
	<u>1,204,240</u>			<u>345,517</u>	<u>1,549,757</u>
Funds held in trust by others . . . . .				12,292	12,292
Total assets at fair value . . . . .	<u>\$ 1,503,136</u>	<u>\$ 1,297,488</u>	<u>\$ 72,969</u>	<u>\$ 357,809</u>	<u>\$ 3,231,402</u>

**BOSTON UNIVERSITY • NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

For the years ended June 30, 2018 and 2017

As of June 30, 2017	Investments	Investments Classified in the Fair Value Hierarchy			Total Fair Value
	Measured at NAV	Level 1	Level 2	Level 3	
<b>Assets at fair value</b>					
Cash and cash equivalents . . . . .	\$	\$ 467,385	\$	\$	\$ 467,385
<b>Common and preferred equities:</b>					
Domestic . . . . .	98,011	78,340			176,351
International . . . . .	177,184	54,529	79,038		310,751
	<u>275,195</u>	<u>132,869</u>	<u>79,038</u>		<u>487,102</u>
<b>Fixed income:</b>					
Domestic . . . . .		728	1,620		2,348
International . . . . .		7	248		255
U.S. government and agencies . . . . .		629,464	113		629,577
		<u>630,199</u>	<u>1,981</u>		<u>632,180</u>
<b>Alternatives:</b>					
Hedge . . . . .	646,662				646,662
Natural resources . . . . .	84,055				84,055
Private . . . . .	275,243			2,237	277,480
Real estate . . . . .	66,146			330,344	396,490
	<u>1,072,106</u>			<u>332,581</u>	<u>1,404,687</u>
Funds held in trust by others . . . . .				8,395	8,395
<b>Total assets at fair value . . . . .</b>	<b>\$ 1,347,301</b>	<b>\$ 1,230,453</b>	<b>\$ 81,019</b>	<b>\$ 340,976</b>	<b>\$ 2,999,749</b>

The following tables present a summary of the University's activity for the years ended June 30, 2018 and 2017 for investment classified in Level 3, in thousands of dollars:

2018	Alternatives		Funds held in trust by others	Total Assets at Level 3
	Private	Real Estate		
Fair value, July 1, 2017 . . . . .	\$ 2,237	\$ 330,344	\$ 8,395	\$ 340,976
Additions . . . . .		11,991	3,666	15,657
Sales or redemptions . . . . .	(404)	(1,200)		(1,604)
Unrealized gains (losses) . . . . .	(1,500)	4,049	231	2,780
Fair value, June 30, 2018 . . . . .	<u>\$ 333</u>	<u>\$ 345,184</u>	<u>\$ 12,292</u>	<u>\$ 357,809</u>

2017	Alternatives		Funds held in trust by others	Total Assets at Level 3
	Private	Real Estate		
Fair value, July 1, 2016 . . . . .	\$ 3,363	\$ 318,643	\$ 4,864	\$ 326,870
Additions . . . . .		535	2,093	2,628
Sales or redemptions . . . . .		(240)		(240)
Unrealized gains (losses) . . . . .	(1,126)	11,406	1,438	11,718
Fair value, June 30, 2017 . . . . .	<u>\$ 2,237</u>	<u>\$ 330,344</u>	<u>\$ 8,395</u>	<u>\$ 340,976</u>

For the years ended June 30, 2018 and 2017

---

The University's policy is to recognize transfers as of the end of the year. For the years ended June 30, 2018 and 2017, there were no transfers between Level 1 and Level 2, and no transfers between Level 2 and Level 3.

*Investment Related Derivatives:*

The endowment employs certain derivative financial instruments to replicate long asset positions more cost effectively than through purchases or sales of the underlying assets.

As a result of entering investment derivative agreements, the University is subject to market volatility consistent with the underlying asset classes. The University has established policies, procedures, and internal controls governing the use of derivatives.

The purchase and sale of exchange-traded derivatives require collateral deposits with the Futures Commission Merchant (FCM). Collateral is posted and moved on a daily basis as required by the rules of the exchange on which the derivatives are traded. In the event of the FCM's insolvency, recovery may be limited to the University's pro-rata share of segregated customer funds available. It is possible that the recovery amount could be less than the total cash or other collateral posted. The collateral is generally in the form of debt obligations issued by the U.S. Treasury or cash. Cash collateral and certain securities owned by the University were held at counterparty brokers to collateralize these positions and are included in cash and cash equivalents-restricted on the Consolidated Statements of Financial Position. As of June 30, 2018 and 2017, the aggregate notional exposure on long-term assets was \$122,661,000 and \$131,264,000, respectively. The associated unrealized loss on these assets was \$3,770,000 and \$806,000, respectively, as of June 30, 2018 and 2017. The notional amount of these derivatives is not recorded on the University's Consolidated Statements of Financial Position.

*Residual Asset Note:*

In June 2006, the University securitized its interest in an investment banking partnership that owned rights to residual future cash flows. To effect the securitization, the rights to receive the future cash flows were transferred from the University to a 100% owned, bankruptcy remote, special purpose limited liability corporation called BU Funding, LLC (LLC). To finance the transaction, the LLC issued a zero coupon note to Deutsche Bank Litigation Fee Trust (DBLF), collateralized by the LLC's rights to the future cash flow stream. The note had an initial face value of \$88,227,000, the aggregate amount of scheduled cash flows to be received between 2007 and 2021. The purchase price of the note was \$25,244,000 and is non-recourse to the University. As of June 30, 2018 and 2017, the carrying value of the investment in residual asset note receivable and related obligation was \$36,212,000 and \$42,685,000, respectively.

The LLC is consolidated in the financial statements of the University. The LLC's discounted note obligation is recorded as a liability and its investment has been recorded as an asset on the Consolidated Statements of Financial Position. The valuation of this investment was based on a present value analysis using readily available observable market discount factors applied to contractually committed cash inflows and outflows. The discount on the note is amortized over its scheduled maturity using the effective interest method and the note obligation decreases as future residual cash flows are received. As a result, the note and the related asset are expected to decline to a balance of zero in 2021. Upon expected extinguishment of the note in 2021, the University remains the beneficiary of \$39,800,000 of cash flows scheduled for 2022-2025.

*Real Estate Partnerships:*

The University owns shares ranging from 45% to 50% in certain University business-related real estate partnerships with a related party, which have been accounted for using the equity method. The University's ownership interest in these partnerships has been recorded within long-term investments on the Consolidated Statements of Financial Position.

For the years ended June 30, 2018 and 2017

*Investment Return:*

The following summarizes, in thousands of dollars, the investment return, as reflected in the Consolidated Statements of Activities:

For the year ended June 30, 2018	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividend and interest income . . . . .	\$ 21,504	\$ 10,522	\$ 778	\$ 32,804
Net realized and unrealized gains on investments and other assets . . . . .	65,032	84,191	782	150,005
Total return on investments and other assets . . .	86,536	94,713	1,560	182,809
Less: spending formula . . . . .	(30,076)	(40,238)	(719)	(71,033)
Less: change in value of designated non-core . . . .	(4,065)			(4,065)
Less: other non-endowment income . . . . .	(14,879)		(68)	(14,947)
	(49,020)	(40,238)	(787)	(90,045)
Excess of investment return over spending formula amount . . . . .	\$ 37,516	\$ 54,475	\$ 773	\$ 92,764
For the year ended June 30, 2017	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividend and interest income . . . . .	\$ 15,490	\$ 12,741	\$ 490	\$ 28,721
Net realized and unrealized gains on investments and other assets . . . . .	91,115	103,144	1,137	195,396
Total return on investments and other assets . . .	106,605	115,885	1,627	224,117
Less: spending formula . . . . .	(26,684)	(37,321)	(459)	(64,464)
Less: change in value of designated non-core . . . .	(11,366)			(11,366)
Less: other non-endowment income . . . . .	(9,885)		(22)	(9,907)
	(47,935)	(37,321)	(481)	(85,737)
Excess of investment return over spending formula amount . . . . .	\$ 58,670	\$ 78,564	\$ 1,146	\$ 138,380

*Commitments:*

Private equity, natural resources, and real estate investments are generally made through private limited partnerships. Under the terms of the partnership agreements, the University makes a commitment of a specific amount of capital to a partnership and is obligated to remit committed funding periodically when capital calls are exercised by the General Partner as the partnership executes on its investment strategy. Private equity, natural resources, and real estate funds are typically structured with investment periods of 3 to 7 years. Subsequent to the expiration of the investment period, a fund is usually prohibited from calling capital for new investments. The aggregate amount of unfunded commitments associated with private limited partnerships as of June 30, 2018 and 2017 was \$368,802,000 and \$302,142,000, respectively. Of this amount, approximately 8% and 10% of commitments as of June 30, 2018 and 2017, respectively, was for funds whose investment period had expired. The timing and amount of capital calls expected to be exercised in any particular future year is uncertain.



For the years ended June 30, 2018 and 2017

*Liquidity:*

Investment liquidity is aggregated below based on redemption or sale period, in thousands of dollars:

As of June 30, 2018	Daily	Monthly	Quarterly	Annually	>1 Year	Total
Cash and cash equivalents* . . . . .	\$ 279,662	\$	\$	\$	\$	\$ 279,662
Common and preferred equities:						
Domestic . . . . .	89,943	1,025	70,287	20,850		182,105
International . . . . .	135,103	141,129	24,422	14,481	27,691	342,826
	<u>225,046</u>	<u>142,154</u>	<u>94,709</u>	<u>35,331</u>	<u>27,691</u>	<u>524,931</u>
Fixed income:						
Domestic . . . . .	2,350	44				2,394
International . . . . .	180	8				188
U.S. government and agencies . . . . .	862,178					862,178
	<u>864,708</u>	<u>52</u>				<u>864,760</u>
Alternatives:						
Hedge . . . . .		9	231,246	328,753	126,747	686,755
Natural resources. . . . .			19,135	22,015	62,284	103,434
Private . . . . .			236	177	352,003	352,416
Real estate . . . . .				263,008	144,144	407,152
		<u>9</u>	<u>250,617</u>	<u>613,953</u>	<u>685,178</u>	<u>1,549,757</u>
Funds held in trust by others . . . . .					12,292	12,292
	<u>\$1,369,416</u>	<u>\$ 142,215</u>	<u>\$ 345,326</u>	<u>\$ 649,284</u>	<u>\$ 725,161</u>	<u>\$3,231,402</u>

\*Cash and cash equivalents includes \$103,785,000 of collateral posted with counterparties under the terms of certain derivative agreements; these funds are held in escrow and earn interest at short-term rates.

As of June 30, 2017	Daily	Monthly	Quarterly	Annually	>1 Year	Total
Cash and cash equivalents* . . . . .	\$ 467,385	\$	\$	\$	\$	\$ 467,385
Common and preferred equities:						
Domestic . . . . .	77,571	800	65,124	32,856		176,351
International . . . . .	133,546	132,001	26,969	18,235		310,751
	<u>211,117</u>	<u>132,801</u>	<u>92,093</u>	<u>51,091</u>		<u>487,102</u>
Fixed income:						
Domestic . . . . .	2,280	68				2,348
International . . . . .	248	7				255
U.S. government and agencies . . . . .	629,577					629,577
	<u>632,105</u>	<u>75</u>				<u>632,180</u>
Alternatives:						
Hedge . . . . .			258,878	243,090	144,694	646,662
Natural resources. . . . .			19,041	9,520	55,494	84,055
Private . . . . .			949	1,553	274,978	277,480
Real estate . . . . .				248,168	148,322	396,490
			<u>278,868</u>	<u>502,331</u>	<u>623,488</u>	<u>1,404,687</u>
Funds held in trust by others . . . . .					8,395	8,395
	<u>\$1,310,607</u>	<u>\$ 132,876</u>	<u>\$ 370,961</u>	<u>\$ 553,422</u>	<u>\$ 631,883</u>	<u>\$2,999,749</u>

\*Cash and cash equivalents includes \$191,903,000 of collateral posted with counterparties under the terms of certain derivative agreements; these funds are held in escrow and earn interest at short-term rates.

For the years ended June 30, 2018 and 2017

Certain hedge funds contain lockup provisions. Under such provisions, share classes of the investment are available for redemption at various times in accordance with the management agreement with the fund.

Except for the non-core real estate deferred sale, described in Note 6, the University has sole discretion to liquidate its direct holdings in non-core real estate included in the table above under “Annually.” These assets are located in the greater Boston market, which is generally active. Notwithstanding that relevant market assumptions have been incorporated where applicable, determining the fair values of such assets involves significant judgment and their ultimate sales price may be materially different than the values reported.

Investments in the “>1 Year” category include non-core real estate subject to deferred sale and non-redeemable assets totaling \$651,975,000 and \$593,688,000, as well as investments with rolling lockup periods totaling \$73,186,000 and \$38,195,000 as of June 30, 2018 and 2017, respectively.

### 3. Endowment Funds

Total endowment assets as of June 30, 2018 and 2017 are \$2,179,287,000 and \$1,957,021,000, respectively. A pooled endowment fund is included as part of the University’s investments. The amounts distributed from the investment return of pooled investments in any one year may include interest, dividends, and a portion of accumulated investment gains. The distribution amount is established annually and is between 3% and 5% of the market value per share as of the most recent December 31. The actual distribution amount is recommended by management, and approved by the Trustee Executive Committee. If interest, dividends, and gains are not sufficient to support the current year drawdown, the balance is provided from prior year accumulated earnings. Income attributable to shares from new donor-restricted and institution designated endowment funds during the first six months after establishment is not spent; such income is included in unrestricted or temporarily restricted net assets, depending on the nature of the endowment fund. For the fiscal years ended June 30, 2018 and 2017, respectively, the distribution as a percentage of the prior December 31 fair value of the pooled endowment fund was 3.9% and 3.8%.

At June 30, 2018 and 2017, respectively, approximately \$51,000 and \$54,000 of unrealized losses on donor-restricted endowment funds were classified as a reduction in the unrestricted net assets as the fair value of these funds was less than their original gift value. Unrestricted net assets will be replenished when the fair value equals the original gift value.

The University’s endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. The University’s endowment also includes temporarily restricted net assets of \$35,412,000 and permanently restricted net assets of \$30,798,000 for the benefit of the Boston University Wheelock College of Education & Human Development, in accordance with the terms of the June 1, 2018 merger with Wheelock College. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The University classifies as permanently restricted net assets (a) the original value of contributions donated to the permanent endowment, (b) the original value of subsequent contributions to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the organization
- (7) The investment policies of the organization

For the years ended June 30, 2018 and 2017

The University has investment and spending policies for its endowment and similar funds that emphasize long-term capital appreciation as a primary source of return while balancing the dual objectives of growth in capital and principal preservation. Investments are expected to earn inflation-adjusted long-term returns sufficient to maintain or grow the purchasing power of assets, net of spending and investment expenses, within acceptable risk parameters. To satisfy its long-term rate of return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation and current yield. The University targets a diversified asset allocation of U.S. treasury bills, common and preferred equities, fixed income, hedge funds, natural resources, private equity, and real estate. The portfolio is expected to produce risk-adjusted returns that exceed the policy benchmarks, a blended rate of indices.

The following table represents endowment net asset composition by type of fund as of June 30, 2018, in thousands of dollars:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted. . . . .	\$ (51)	\$ 632,315	\$ 620,960	\$1,253,224
Institution designated. . . . .	874,959			874,959
Endowment net assets at end of year. . . . .	<u>\$ 874,908</u>	<u>\$ 632,315</u>	<u>\$ 620,960</u>	<u>\$2,128,183</u>

The following table represents changes in endowment net assets for the fiscal year ended June 30, 2018, in thousands of dollars:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year . . . .	\$ 807,308	\$ 541,632	\$ 552,212	\$1,901,152
Reinvested income distribution . . . . .	5,031	1,239	751	7,021
Realized and unrealized gains . . . . .	67,592	94,713	1,492	163,797
Less: spending formula . . . . .	<u>(30,076)</u>	<u>(40,238)</u>	<u>(719)</u>	<u>(71,033)</u>
Undistributed investment income . . . . .	42,547	55,714	1,524	99,785
Contributions . . . . .	3,253	1,247	7,288	11,788
Pledge payments . . . . .	131		29,200	29,331
Other additions, transfers, and net asset reclassifications . . . . .	<u>21,669</u>	<u>33,722</u>	<u>30,736</u>	<u>86,127</u>
Endowment net assets at end of year. . . . .	<u>\$ 874,908</u>	<u>\$ 632,315</u>	<u>\$ 620,960</u>	<u>\$2,128,183</u>

For the years ended June 30, 2018 and 2017

The following table represents endowment net asset composition by type of fund as of June 30, 2017, in thousands of dollars:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted. . . . .	\$ (54)	\$ 541,632	\$ 552,212	\$1,093,790
Institution designated. . . . .	807,362			807,362
Endowment net assets at end of year. . . . .	<u>\$ 807,308</u>	<u>\$ 541,632</u>	<u>\$ 552,212</u>	<u>\$1,901,152</u>

The following table represents changes in endowment net assets for the fiscal year ended June 30, 2017, in thousands of dollars:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year . . . .	\$ 621,369	\$ 459,902	\$ 511,915	\$1,593,186
Reinvested income distribution . . . . .	6,757	1,217	810	8,784
Realized and unrealized gains . . . . .	85,354	115,885	1,605	202,844
Less: spending formula . . . . .	<u>(26,684)</u>	<u>(37,321)</u>	<u>(459)</u>	<u>(64,464)</u>
Undistributed investment income . . . . .	65,427	79,781	1,956	147,164
Contributions . . . . .	3,298	1,112	9,117	13,527
Pledge payments . . . . .	316		30,218	30,534
Other additions (deductions), transfers, and net asset reclassifications . . . . .	<u>116,898</u>	<u>837</u>	<u>(994)</u>	<u>116,741</u>
Endowment net assets at end of year. . . . .	<u>\$ 807,308</u>	<u>\$ 541,632</u>	<u>\$ 552,212</u>	<u>\$1,901,152</u>

**4. Accounts Receivable and Pledges Receivable**

*Accounts Receivable:*

Accounts and loans receivable at June 30, 2018 and 2017, in thousands of dollars, consist of the following:

	2018	2017
Accounts receivable, net:		
Students. . . . .	\$ 18,155	\$ 15,591
Less: allowances . . . . .	<u>(7,360)</u>	<u>(6,397)</u>
	10,795	9,194
Grants and contracts . . . . .	69,130	65,234
Departmental sales, services, and other . . . . .	78,917	48,056
Less: allowances . . . . .	<u>(8,944)</u>	<u>(11,659)</u>
	139,103	101,631
Student loans. . . . .	74,448	77,279
Less: allowances . . . . .	<u>(4,720)</u>	<u>(3,037)</u>
	69,728	74,242
Total accounts receivable, net . . . . .	<u>\$ 219,626</u>	<u>\$ 185,067</u>



For the years ended June 30, 2018 and 2017

Federally sponsored student loans receivable represented \$39,244,000 and \$43,337,000 as of June 30, 2018 and 2017, respectively, of total student loans receivable, which consist of amounts due from current and former students under various federal government loan programs, including Perkins and health professional programs offered to graduate and undergraduate students. The University's advances under Perkins and other federal funded student loan programs were \$40,200,000 and \$39,254,000 as of June 30, 2018 and 2017, respectively, and are included in other long-term obligations on the Consolidated Statements of Financial Position. The University has the right to assign loans disbursed under these programs to the federal government upon default by the borrower; therefore, no allowance has been provided for these loans.

Departmental sales, services, and other receivables include outstanding notes, mortgages, and advances bearing interest at rates up to 5.15% at June 30, 2018 and 2017, to certain employees. The aggregate amount as of June 30, 2018 and 2017 is \$8,117,000 and \$7,464,000, respectively.

*Pledges Receivable:*

Pledges consist of unconditional written promises by donors to contribute to the University in the future. At June 30, 2018 and 2017, pledges, in thousands of dollars, are expected to be realized in the following time frame:

	2018	2017
In one year or less . . . . .	\$ 71,151	\$ 38,792
Between one year and five years . . . . .	152,824	179,226
More than five years . . . . .	56,597	35,184
	280,572	253,202
Discount to present value (at rates ranging from 1.51% to 4.26%) . .	(27,922)	(26,248)
Less: allowance for unfulfilled pledges . . . . .	(17,730)	(16,000)
Pledges receivable . . . . .	\$ 234,920	\$ 210,954

On June 30, 2017, the University received a significant pledge of \$115,000,000, of which \$100,000,000 will be an addition to the University's endowment. Income from this endowment fund will be used to support the University's investments in interdisciplinary research at the intersection of life science and engineering. This gift is included in pledges receivable on the Consolidated Statement of Financial Position at an estimated present value of \$105,172,000 and \$104,800,000 as of June 30, 2018 and 2017, respectively.

**5. Property, Plant, and Equipment**

Property, plant, and equipment and related accumulated depreciation at June 30, 2018 and 2017, in thousands of dollars, consist of the following:

	2018	2017
Land . . . . .	\$ 217,191	\$ 99,991
Buildings and improvements . . . . .	3,327,402	3,036,432
Construction in progress . . . . .	122,656	243,839
Software . . . . .	57,412	56,224
Equipment . . . . .	288,475	278,159
Library books . . . . .	237,607	225,873
	4,250,743	3,940,518
Less: accumulated depreciation . . . . .	(1,638,263)	(1,530,393)
Property, plant, and equipment, net . . . . .	\$ 2,612,480	\$ 2,410,125

For the years ended June 30, 2018 and 2017

As of June 30, 2018 and 2017, gross buildings and improvements include \$94,548,000 associated with office and research space under capital lease.

As of June 30, 2018 and 2017, capital expenditures of \$209,986,000 and \$208,942,000, respectively, were incurred for construction of the National Emerging Infectious Diseases Laboratories (NEIDL). Of this, \$42,815,000 and \$117,796,000 was placed in service during the years ended June 30, 2015 and 2012, respectively. In fiscal year 2018, the remaining amount of \$49,375,000 was placed in service when the final BSL-4 approval was obtained.

## 6. Sale and Ground Lease of Non-Core Real Estate

In October 2016, the University entered into an agreement to sell certain non-core real estate buildings and to lease the related land to the purchaser of the buildings. The total amount of the agreement was \$144,000,000, with \$140,000,000 due at closing and \$4,000,000 to be paid in October 2018.

Recognition of the sale has been deferred, as required by ASC 840, *Leases*, since the University retained rights to additional ground rent should future signage revenue and permitted floor area exceed thresholds established in the agreement, and because the University is leasing back a portion of the building from the purchaser. Buildings with a fair market value of \$80,000,000 as of June 30, 2018 and 2017 will remain in long-term investments in the Consolidated Statement of Financial Position until the sale is recognized. The prepaid lease payment of \$64,000,000 has been deferred and will be recognized as revenue over the life of the ground leases. The portion of the payment relating to the sale of the buildings, \$76,000,000 net of closing costs, has been recorded as a deposit in other long-term liabilities in the Consolidated Statement of Financial Position as of June 30, 2018 and 2017. As required by ASC 840, *Leases*, the \$4,000,000 due in October 2018 has not been recognized as a receivable in the Consolidated Statement of Financial Position as of June 30, 2018 and 2017.

Property leased back by the University from the purchaser consisted of 273,000 rentable square feet subject to a two-year lease, followed by a 15-year lease for 65,000 rentable square feet. The leases are classified as operating leases. Annual operating lease payments each year from 2019 to 2023 and in the aggregate for the remaining term of the leases are \$3,135,000, \$2,594,000, \$2,672,000, \$2,752,000, \$2,834,000, and \$34,428,000, respectively.

## 7. Other Long-Term Obligations

Other long-term obligations included in the Consolidated Statements of Financial Position at June 30, 2018 and 2017 were as follows, in thousands of dollars:

	2018	2017
Deposit relating to sale of non-core real estate, net . . . . .	\$ 74,025	\$ 74,025
Federal Perkins loan advances . . . . .	40,200	39,254
Conditional asset retirement obligation. . . . .	13,993	14,326
Annuities and split-interest agreements payable . . . . .	11,565	11,846
Post-retirement obligation . . . . .	2,100	2,700
Other long-term obligations . . . . .	<u>\$ 141,883</u>	<u>\$ 142,151</u>

For the years ended June 30, 2018 and 2017

8. Indebtedness

*Bonds and Notes Payable:*

The principal amounts of bonds and notes payable at June 30, 2018 and 2017, in thousands of dollars, are summarized in the table below. Tax exempt and certain taxable bonds were issued through the Massachusetts Development Finance Agency (MDFA) and through the Massachusetts Health and Educational Facilities Authority (HEFA) prior to its merger with MDFA.

	Final Bond Maturity	Interest Rate at June 30, 2018	Interest Rate at June 30, 2017	Outstanding Principal	
				2018	2017
Fixed rate bonds and notes payable:					
MDFA Series P, blended fixed rate . . . . .	05/15/2059	5.63%	5.63%	\$ 100,000	\$ 100,000
MDFA Series W (taxable) . . . . .	10/01/2045	5.20%	5.20%	100,470	100,470
MDFA Series X, blended fixed rate . . . . .	10/01/2048	4.78%	4.78%	111,485	111,485
MDFA Series Z-1 . . . . .	10/01/2019	1.50%	1.50%	63,170	63,170
MDFA Series Z-2 . . . . .	10/01/2019	1.50%	1.50%	10,200	10,200
MDFA Series BB-1 . . . . .	10/01/2046	4.54%	4.54%	111,270	111,270
MDFA Series BB-2 . . . . .	10/01/2040	3.95%	3.95%	52,260	52,260
MDFA Series BB-3 . . . . .	10/01/2029	5.00%	5.00%	38,290	38,290
Century notes (taxable) . . . . .	07/15/2097	7.63%	7.63%	100,000	100,000
Boston Redevelopment Authority					
note (taxable) . . . . .	06/15/2021	0.00%	0.00%	3,435	4,580
Aetna loan (taxable) . . . . .	09/15/2018	10.20%	10.20%	514	1,468
Various notes payable (taxable) . . . . .	various	various	various	1,297	1,776
Total fixed rate bonds and notes payable . . . . .				692,391	694,969
Variable rate bonds payable:					
HEFA Series H . . . . .	12/01/2029	1.53%	0.90%	25,000	25,000
HEFA Series N (taxable) . . . . .	10/01/2034	2.06%	1.20%	28,605	29,585
MDFA Series U-1 . . . . .	10/01/2040	2.26%	1.11%	50,000	50,000
MDFA Series U-2 . . . . .	10/01/2040	2.09%	1.13%	50,000	50,000
MDFA Series U-3 . . . . .	10/01/2040	1.42%	0.89%	50,000	50,000
MDFA Series U-5A . . . . .	10/01/2031	2.23%	1.21%	32,100	33,700
MDFA Series U-5B . . . . .	10/01/2031	2.23%	1.21%	33,500	35,200
MDFA Series U-6A . . . . .	10/01/2042	2.00%	1.31%	62,850	62,850
MDFA Series U-6C . . . . .	10/01/2042	1.47%	0.89%	52,545	52,545
MDFA Series U-6E . . . . .	10/01/2042	2.23%	1.21%	62,695	62,695
Royal Bank of Scotland (taxable) . . . . .	08/15/2029	1.09%	0.77%	26,373	27,569
MDFA Series Y . . . . .	10/01/2039	2.28%	1.18%	35,000	35,000
MDFA Series AA . . . . .	10/01/2039	1.97%	1.34%	162,740	162,740
Boston University term loan (taxable) . . . . .	06/01/2020	2.33%	n/a	34,506	
Total variable rate bonds and notes payable . . . . .				705,914	676,884
Total bonds and notes payable . . . . .				1,398,305	1,371,853
Plus: unamortized bond premium and discount, net . . . . .				35,615	37,420
Less: unamortized bond issuance costs . . . . .				(3,999)	(4,291)
Total bonds and notes payable, net . . . . .				\$ 1,429,921	\$ 1,404,982

For the years ended June 30, 2018 and 2017

Certain bond and bank obligations are collateralized by a pledge on tuition revenues, and certain other notes payable are collateralized by plant and property with a net carrying value of \$43,775,000 and \$45,000,000 as of June 30, 2018 and 2017, respectively. The University's bank agreements require annual compliance with financial covenants, including a minimum level of debt service coverage and a minimum level of expendable resources relative to debt. The University was in compliance with all debt covenants as of June 30, 2018 and 2017.

Scheduled principal payments on bonds and notes payable, in thousands of dollars, are presented in the table below:

Fiscal Year	Scheduled Principal Maturities
2019. ....	\$ 8,670
2020. ....	116,239
2021. ....	8,629
2022. ....	7,955
2023. ....	8,274
Thereafter. ....	1,248,538
Total. ....	<u>\$ 1,398,305</u>

Scheduled principal maturities represent aggregate annual payments as required under long-term debt repayment schedules. As of June 30, 2018, the University's debt portfolio includes variable rate demand bonds (VRDBs) of \$156,150,000 that are supported by irrevocable letters of credit (LOCs). The LOCs are provided by a diverse group of financial institutions to secure bond repayment and interest obligations and have various maturity dates between June 2019 and June 2022. In the event that a VRDB cannot be remarketed, the bond may be "put" to the LOC provider, resulting in a loan to the University to fund redemption of the bond. If all outstanding VRDBs had been "put" as of June 30, 2018, aggregate scheduled loan repayments under the VRDB-related LOCs would be as follows: \$26,025,000, \$52,050,000, \$52,050,000, and \$26,025,000 in fiscal years 2019, 2020, 2021, and 2022 respectively. There have been no instances where a bond failed to be remarketed and was put back to the University.

In November 2016, the University issued its \$111,270,000 Series BB-1 tax exempt fixed rate bonds with a final maturity in October 2046. The bonds were issued at a premium, generating proceeds of \$125,604,000, which were used to fund designated capital expenditures and to pay bond issuance costs.

In November 2016, the University issued its \$52,260,000 Series BB-2 and \$38,290,000 Series BB-3 tax exempt fixed rate bonds. The bonds were issued at a premium, generating proceeds of \$56,962,000 and \$49,274,000, respectively, which were used to advance refund \$50,000,000 of Series U-4 and \$44,000,000 of Series V-1 bonds. The effect of the refunding was a non-operating loss from extinguishment of debt of \$11,744,000 included in other additions (deductions) and transfers, net in the Consolidated Statement of Activities in fiscal year 2017. Future debt service savings of approximately \$22,299,000 are expected due to the more favorable terms of the new Series BB-2 and BB-3 bonds compared with the refunded bonds. The refunded Series U-4 and Series V-1 bonds were legally defeased and, as such, are not reflected in bonds and notes payable, net at June 30, 2018 and 2017. As a result of the advance refunding, unamortized issuance costs of \$226,000 and \$214,000 for Series U-4 and Series V-1 were written off in other additions (deductions) and transfers, net in the Consolidated Statement of Activities for the year ended June 30, 2017.

In March 2017, the University fully redeemed its Series T-2 taxable fixed rate bonds totaling \$4,260,000. As a result of the redemption, unamortized issuance costs of \$78,000 for Series T-2 were written off in other additions (deductions) and transfers, net in the Consolidated Statement of Activities for the year ended June 30, 2017.

In June 2018, the University entered a term loan in the amount of \$34,506,000 with U.S. Bank N.A. The proceeds of the term loan, together with other funds, were used to defease \$37,120,000 of outstanding principal of the Wheelock College Series C tax exempt bonds assumed by the University as a result of its merger with Wheelock College. Unamortized bond premium, bond discount, and issuance costs of \$281,000 associated with the Wheelock College Series C bonds were written off in other additions (deductions) and transfers in the Consolidated Statement of Activities for the year ended June 30, 2018.



For the years ended June 30, 2018 and 2017

*Bank Lines:*

The University has a total of \$140,000,000 in committed one-year lines of credit with six financial institutions. There were no draws or outstanding loans under these lines of credit as of and for the years ended June 30, 2018 and 2017. The current expiration dates for all lines of credit are in April 2019. The University plans to renew the lines of credit upon expiration.

*Debt-Related Derivatives:*

The University has entered into various long-term interest rate exchange agreements to hedge all or a portion of the variable interest rate exposure on certain debt issues, thereby managing the interest cost and risk associated with its outstanding debt. The contracts require the University to make fixed rate interest payments in exchange for variable rate interest payments on the respective notional principal amounts. The variable rate payments received are expected to approximate the interest payable on the underlying variable rate debt. Scheduled reductions of the notional amounts under the swap agreements also generally match the scheduled amortization of the underlying debt.

In connection with the counterparty's exercise of existing rights under a swaption contract related to its Series T-1 bonds, the University entered into a swap with a notional amount of \$162,740,000 effective October 1, 2015. Under the terms of the swap, the University pays a fixed rate of 4.95% and receives the SIFMA index from October 1, 2015 through October 1, 2039. The University subsequently entered into novation agreements to replace the existing swap counterparty with two new counterparties. The novated swaps fully hedge the interest rate risk of the University's Series AA variable rate bonds.

Below is a summary of the terms of the University's outstanding debt-related derivatives as of June 30, 2018 and 2017, in thousands of dollars:

Swap	Notional Amount	Fair Value		Effective Date	Termination Date	University Pays	University Receives
		6/30/18	6/30/17				
Series H . . . . .	\$ 25,000	\$ 6,409	\$ 8,116	10/03/2008	12/01/2027	5.28%	SIFMA
Series N . . . . .	21,495	5,808	7,873	10/03/2008	10/01/2027	6.79%	LIBOR
Series U1-3 . . . . .	75,000	21,287	26,942	10/03/2008	10/01/2040	4.01%	69% of 1-Mo. USD LIBOR
Series U1-3 . . . . .	75,000	20,858	26,471	10/01/2007	10/01/2040	3.94%	69% of 1-Mo. USD LIBOR
Series U5 . . . . .	65,600	9,852	13,720	10/03/2008	10/01/2031	4.10%	67% of 1-Mo. USD LIBOR
Series U6 . . . . .	149,750	81,156	95,161	10/03/2008	10/01/2042	5.42%	SIFMA
Series U6 . . . . .	89,750	48,383	56,719	07/01/2008	10/01/2042	5.42%	SIFMA
Series U6 . . . . .	10,700	706	1,202	10/03/2008	10/01/2022	4.16%	67% of 1-Mo. USD LIBOR
Series Y . . . . .	35,000	12,876	15,593	10/01/2014	10/01/2039	4.70%	SIFMA
Series Z . . . . .	73,370	324	(247)	10/01/2014	08/01/2019	SIFMA	1.265%
Series AA-1 . . . . .	81,370	30,486	37,095	10/01/2015	10/01/2039	4.95%	67% of 1-Mo. USD LIBOR -.027%*
Series AA-2 . . . . .	81,370	30,353	37,075	10/01/2015	10/01/2039	4.95%	67% of 1-Mo. USD LIBOR +.024%**
Royal Bank of Scotland	26,349	6,237	7,539	08/15/2006	08/15/2029	5.645%	3-Mo. GBP LIBOR +45 basis points
Less: credit valuation adjustment . . .		(5,109)	(15,059)				
Total . . . . .		\$ 269,626	\$ 318,200				

\*Until April 1, 2020: thereafter SIFMA

\*\*Until April 1, 2021: thereafter SIFMA

SIFMA—Securities Industry and Financial Markets Association Municipal Swap Index

LIBOR—London Interbank Offered Rate

For the years ended June 30, 2018 and 2017

---

Interest rate exchange liabilities are valued using observable inputs, such as quotations received from the counterparty, dealers, or brokers, whenever available and considered reliable. In instances where models are used to validate third-party quotations, the value of the interest rate exchange liability depends upon the contractual terms of, and specific risks inherent in, the instrument, as well as the availability and reliability of observable inputs. Such inputs include market prices for reference securities, credit curves, assumptions for nonperformance risk, and correlations of such inputs. The fair value of interest rate exchange agreements is included within Level 2 of the valuation hierarchy.

In 2018 and 2017, the University's net settlement payments on interest rate exchange agreements were \$28,058,000 and \$31,630,000, respectively. These net settlement costs have been reported in nonoperating activities in net realized and unrealized gains on interest rate agreements on the Consolidated Statements of Activities.

For purposes of the Consolidated Statements of Cash Flows, net settlements under the University's interest rate exchange agreements are generally included in cash flows from operating activities. However, in October 2008, the University elected to terminate its existing interest rate exchange agreements with a subsidiary of Lehman Brothers after that firm's bankruptcy and simultaneously entered replacement agreements with new counterparties who provided cash to facilitate settlement of the existing agreements. Accordingly, future net settlements under various replacement agreements, with a total notional amount of \$347,545,000 at June 30, 2018, are considered financing activities. During 2018 and 2017, respectively, \$11,263,000 and \$12,987,000 of the net settlement payments were classified as cash flows used in financing activities.

The University's interest rate exchange agreements necessarily involve counterparty credit exposure. The counterparties for the University's agreements are a diversified group of major financial institutions that meet the University's criteria for financial stability and creditworthiness. Interest rate exchange agreements provide for two-way collateral posting requirements intended to mitigate credit risk. At June 30, 2018 and 2017, the University was required to post collateral of \$98,751,000 and \$186,914,000, respectively. Posted collateral balances are included on the Consolidated Statements of Financial Position in cash and cash equivalents-restricted. Contractual bilateral collateral posting levels are based on counterparty public debt ratings; current University posting amounts could increase or decrease should the University's credit ratings change. Additionally, interest rate exchange contracts provide for early termination should a counterparty's credit ratings fall below investment grade.

## 9. Pension and Other Employee Benefits

### *Defined Contribution Plan:*

All employees who work at least 50% of a full-time schedule and have an appointment or an expected assignment duration of at least nine months are eligible to participate in defined contribution benefit plans. The University contributes a specified percentage of each employee's salary to the plan. Contributions for the years ended June 30, 2018 and 2017, respectively, were \$75,885,000 and \$70,310,000.

### *Other Post-Retirement Benefit Plans:*

During fiscal year 2009, the University initiated the process to discontinue a plan option that offers subsidized healthcare coverage to employees who retire from the University after age 55 until age 65, with at least ten consecutive years of participation in the Plan at the time they retire. Reflecting an extension of the termination date made in fiscal year 2010, the change applied to employees terminating from the University on or after September 1, 2009. Claims paid in 2018 and 2017, net of interest costs totaled \$600,000 each year. The University's accrued post-retirement benefit obligation reflected in the Consolidated Statements of Financial Position totaled \$2,100,000 and \$2,700,000 as of June 30, 2018 and 2017, respectively.

For the years ended June 30, 2018 and 2017

## 10. Commitments and Contingencies

### Leases:

The University is committed to minimum annual rent payments under several long-term non-cancellable operating and capital leases for educational and office space through fiscal year 2034. Amounts scheduled include options to extend capital leases through the year 2066, in thousands of dollars, and are summarized below as of June 30, 2018:

<u>Fiscal Year</u>	<u>Operating</u>	<u>Capital</u>
2019	\$ 24,765	\$ 4,021
2020	20,978	4,064
2021	18,773	4,064
2022	18,349	4,064
2023	17,226	4,064
Thereafter	90,044	172,537
	<u>\$ 190,135</u>	<u>\$ 192,814</u>
Less: amounts representing interest		<u>(110,893)</u>
Capital lease obligations		<u>\$ 81,921</u>

For 2018 and 2017, rent expense for educational facilities and office space was \$33,315,000 and \$31,524,000, respectively. Certain of these leases provide an option to purchase the properties at fair value.

The University's capital lease obligations are related to a biomedical research facility at 670 Albany Street in Boston.

### Joint Venture Commitments:

The University has entered into certain non-cancellable operating leases expiring through 2030 with its equity method real estate partnerships. The partnerships have total assets of \$81,663,000 and \$83,407,000 and total liabilities of \$32,727,000 and \$36,030,000 as of June 30, 2018 and 2017, respectively. The total outstanding debt is equal to \$30,355,000 and \$32,532,000 as of June 30, 2018 and 2017, respectively. The University's share of the debt is \$14,568,000 and \$15,645,000 as of June 30, 2018 and 2017, respectively. The total minimum annual lease payments associated with these leases of approximately \$7,513,000 and \$7,502,000 for the years ended June 30, 2018 and 2017, respectively, are included in the lease commitment table above.

### NEIDL:

In September 2003 the University received an award from the National Institutes of Health (NIH) for the construction of a Biosafety Level (BSL) 4 NEIDL on the University's Medical Campus. The NEIDL is used by the University and other organizations to study infectious diseases and to support the federal government's bio-defense effort.

Construction of the NEIDL was substantially completed in 2009. In March of 2012 the University received clearance from the Massachusetts Executive Office of Energy and Environmental Affairs to conduct research at NEIDL at BSL-2 allowing research to begin in 60% of the facility. In November 2014, the University received final clearance from the Boston Public Health Commission (BPHC) for research at NEIDL at BSL-3 and research began in an additional 21% of the facility. In December 2017, the University received final approval to conduct research at BSL-4.

Total construction costs were \$209,986,000 and \$208,942,000 as of June 30, 2018 and 2017, respectively. NIH has reimbursed \$140,921,000 as of June 30, 2018 and 2017, respectively. When initially received by the University, NIH funding for NEIDL construction was recorded in temporarily restricted net assets, to be reclassified to unrestricted net assets as assets are placed in service. In fiscal years 2018, 2015, and 2012, a pro-rata share of NIH funding, \$24,883,000, \$29,531,000, and \$86,507,000, respectively, was reclassified from temporarily restricted net assets to unrestricted net assets.

For the years ended June 30, 2018 and 2017

---

*Deferred Ground Lease Revenue:*

In December 2012, in connection with the sale of a non-core asset, the University entered into a 75-year ground agreement to lease the related land to the purchaser of the building. The lease term is through 2087. In connection with this transaction, the University received a prepaid lease payment of \$38,625,000 that will be amortized on a straight-line basis over the term of the lease. For the years ended June 30, 2018 and 2017, the University recognized rental revenue of \$515,000 related to the ground lease. The unamortized deferred ground lease revenue as of June 30, 2018 and 2017 is \$35,793,000 and \$36,308,000, respectively.

As described in Note 6, in October 2016, in connection with the sale of non-core assets, the University entered into four 99-year agreements to lease the related land to the purchaser of the buildings. The lease term is through 2115. In connection with this transaction, the University received a prepaid lease payment of \$64,000,000 that will be amortized on a straight-line basis over the term of the lease. For the year ended June 30, 2018, the University recognized rental revenue of \$647,000 related to the ground lease. The unamortized deferred rent as of June 30, 2018 and 2017 is \$62,922,000 and \$63,569,000, respectively.

*Other:*

As of June 30, 2018, the University has commitments of approximately \$268,839,000 related to open construction contracts and capital acquisitions. This amount is expected to be financed from operating cash flows, federal government grants, and borrowings.

Effective July 1, 1996, the University entered into a support agreement with Boston Medical Corporation, which was formed from the merger of Boston City Hospital and Boston Medical Center Hospital. The University agreed to continue its support of clinical department operations at a level of support proportionately consistent to what was provided before the merger. The University's commitment for fiscal year 2018 was approximately \$9,638,000.

The University is a defendant in various legal actions arising in the normal course of its operations. Although the final outcome of such actions cannot currently be determined, the University believes that eventual liability, if any, will not have a material effect on the University's financial position.

## 11. Wheelock College

The transaction with Wheelock College discussed in Note 1 has been accounted for under ASC 958-805, *Not-for-Profit Entities: Mergers and Acquisitions*, which defines a combination of one or more not-for-profit activities as either a merger or an acquisition. The transaction has been treated as an acquisition for accounting purposes.

Assets received in the transaction totaled \$207,987,000, with 96% of the balance consisting of endowment investments, perpetual trusts, and land, buildings, and equipment. Liabilities assumed totaled \$44,715,000, including bonds payable of \$36,839,000.

The University is required to establish and maintain appropriate academic or administrative space for the Boston University Wheelock College of Education & Human Development on the Wheelock Campus until the fifth anniversary of the merger on June 1, 2023. Accordingly, the property, plant, and equipment have been classified as temporarily restricted.

Concurrent to the merger, the University legally defeased Wheelock College's bond of \$37,120,000 and recognized a loss on extinguishment of debt of \$369,000.

## 12. Subsequent Events

In August 2018, the University issued its \$300,000,000 Series CC taxable bonds at a fixed interest rate of 4.061%. Final maturity of the bonds is through October 1, 2048. A portion of the Series CC bond proceeds was used to redeem the term loan with U.S. Bank N.A. in the amount of \$34,506,000, plus accrued interest.

The University has assessed the impact of subsequent events through September 13, 2018, the date the Consolidated Financial Statements were issued.

## THE CORPORATION

THE FOUNDERS	Lee Claflin	Isaac Rich	Jacob Sleeper	
THE ASSOCIATE FOUNDERS	Augusta E. Corbin Chester C. Corbin Albert V. Danielsen Edward H. Dunn Rafik B. al-Hariri Charles Hayden	Arthur G. B. Metcalf Stephen P. Mugar Anne A. Ramsey John R. Robinson Roswell R. Robinson	Alden Speare Dewey David Stone Harry K. Stone Gerald Tsai, Jr. An Wang	
THE TRUSTEES	William D. Bloom Richard D. Cohen Jonathan R. Cole Shamim A. Dahod Sudarshana Devadhar Ahmass L. Fakahany Maurice R. Ferré Sandra A. Frazier Carol N. Fulp Ryan K. Roth Gallo Richard C. Godfrey SungEun Han-Andersen	John P. Howe III William A. Kamer Stephen R. Karp Rajen A. Kilachand Robert A. Knox Andrew R. Lack Cataldo W. Leone Kevin Merida Carla E. Meyer Ruth A. Moorman Alicia C. Mullen Peter T. Paul	Jacques P. Perold C. A. Lance Piccolo Allen Questrom Sharon G. Ryan S. D. Shibulal Hugo X. Shong Bippy M. Siegal Kenneth Z. Slater Malek Sukkar Nina C. Tassler Andrea L. Taylor Stephen M. Zide	
THE OVERSEERS	Warren J. Adelson Maureen A. Alphonse-Charles Gayle R. Berg Cassandra M. Clay Cynthia R. Cohen Gerard H. Cohen Suzanne Cutler Shadi Daher Maya Ezratti Bruce J. Feirstein Sidney J. Feltenstein	Michael D. Fricklas David E. Hollowell Esther A. H. Hopkins Karen Elliott House Christine S. Hunter David R. Jones Steven M. Karbank Stewart F. Lane Tonie Leatherberry Philip Libin Kenneth P. Morrison	Rebecca Norlander Elisabeth Schadae Percelay Stuart W. Pratt Jay Roewe Richard C. Shipley Marshall M. Sloane James Stergios Marcy Syms Lisa Ann Wong Lucy Landesman Halperin Zaro	
THE TRUSTEES EMERITI	Terry L. Andreas Christopher A. Barreca Robert J. Brown Frederick H. Chicos Howard L. Clark, Jr. Suzanne Cutler Edson D. de Castro Richard B. DeWolfe Dexter A. Dodge Patricia K. Donahoe Sidney J. Feltenstein	Norman E. Gaut Gerald L. Gitner Vartan Gregorian Leon C. Hirsch Esther A. H. Hopkins Karen Elliott House James M. Howell Richard R. Joaquim Luci Baines Johnson Alan M. Leventhal William F. Macauley	Edward I. Masterman JoAnn McGrath Melvin B. Miller Stuart W. Pratt John R. Robinson Richard C. Shipley Marshall M. Sloane John F. Smith, Jr. Laura Walsh Robert E. Yellin	
THE UNIVERSITY ADMINISTRATION	<p><i>President</i> Robert A. Brown, B.S., M.S., Ph.D.</p> <p><i>University Provost &amp; Chief Academic Officer</i> Jean Morrison, B.A., M.S., Ph.D.</p> <p><i>Provost of the Medical Campus</i> Karen H. Antman, B.S., M.D.</p>	<p><i>Chief Investment Officer</i> Lila C. Hunnewell, B.A., M.B.A.</p> <p><i>Senior Vice President, Chief Financial Officer, and Treasurer</i> Martin J. Howard, B.A., M.B.A., C.P.A., C.F.A., C.F.P.</p> <p><i>Senior Vice President for External Affairs</i> Stephen P. Burgay, B.A., J.D.</p>	<p><i>Senior Vice President for Development &amp; Alumni Relations</i> Scott G. Nichols, B.A., M.S., Ed.D.</p> <p><i>Senior Vice President for Operations</i> Gary W. Nicksa, B.S.B.A., M.S.T., C.P.A.</p>	<p><i>Senior Vice President, Senior Counsel, and Secretary of the Board</i> Todd L. C. Klipp, B.A., J.D.</p> <p><i>Vice President and General Counsel</i> Erika Geetter, B.A., J.D.</p>